

Understanding Individual 1040 Tax Credits



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Topics to be discussed:



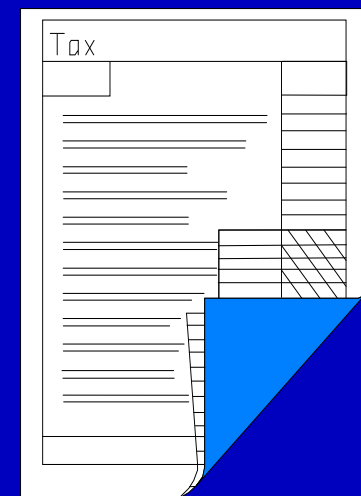
- **Earned Income Tax Credit**
- **Child Tax Credit**
- **Additional Child Tax Credit**
- **Lifetime Learning Credit**
- **American Opportunity Credit (formerly Hope Credit)**
- **Questions**

Earned Income Tax Credit*



EITC is a refundable federal income tax credit for low-income working individuals and families who meet certain income requirements and other qualifications.

***Also commonly called “EIC” and “Earned Income Credit.”**



Who Qualifies for EITC?



Adjusted Gross Income for 2009 must be less than:

\$43,279 – 3 or more qualifying children (\$48,279 if MFJ)

\$40,295 - 2 qualifying children (\$45,295 if MFJ)

\$35,463 - 1 qualifying child (\$40,463 if MFJ)

\$13,440 - no children (\$18,440 if MFJ)

- **EITC is figured on AGI, not modified AGI.**
- **IRS considers an eligible foster child a child placed in your home by an authorized agency who lives with you for more than half the year.**

Other Qualifications to Claim EITC



- Taxpayer must have earned income.
- Taxpayer must have a valid social security number for self, spouse and children.
- Generally you cannot file “Married Filing Separately.”
- Must be a US citizen or resident alien all year.
- Cannot be filing Form 2555 or Form 2555EZ.
- Investment income must be under \$3,100.

A Qualifying Child for EIT C



Relationship: son, daughter, adopted child, stepchild, grandchild, or eligible foster child. Siblings and their children also qualify.

➤ **Age:** Under 19 and younger than taxpayer. If a full-time student, under 24 and younger than taxpayer. Or, if disabled, can be any age.

➤ **Residency:** Child must live with you in the U.S. for more than half the year.

EITC Requirements for a Qualifying Child



- Only one person can claim the same qualifying child. A mother and father can take a child on alternate years or as agreed to by a court. If there is a dispute, the custodial parent wins 95% of the cases. However, it should be noted that the first person filing with the child's name & Social Security Number gets the credit and the other parent must take up the issue with the IRS.
- Taxpayer cannot be a qualifying child of another person.

What is the Child Tax Credit?



- ☐ The *Child Tax Credit* is a nonrefundable credit for eligible taxpayers who may claim the credit for each *qualifying child* who is under 17 at the end of the tax year.
- ☐ Child must be the taxpayer's sibling, child, stepchild, adopted child, grandchild, or eligible foster child or a descendant of any of them.
- ☐ Child must not have provided more than half of his/her own support for the year.



Child Tax Credit



The *qualifying child* must be either a:

- U.S. citizen,

- U.S. national, or

- U.S. resident alien,

AND must have lived with the taxpayer for more than six months during 2009 with certain exceptions for:

- temporary absences,

- kidnapped children,

- those born or who died in the year,

- children of divorced/separated parents.

Child Tax Credit



- For 2009, the CTC is up to \$1,000 per *qualifying child*. Child tax credit can reduce the tax to zero. For 2009, the child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of \$3,000.
- It does not reduce to self-employment tax.
- If the tax amount on the return is LESS than the amount of potential child tax credit, check to see if you qualify for additional child tax credit.

Additional Child Tax Credit



- Has the same amount of credit per qualifying child.
- Has the same requirements for the qualifying child.
- May be refundable under certain conditions.

Education Credits



- The Lifetime Learning and American Opportunity Tax Credits can help offset education costs.
- You cannot claim both credits for the same student in the same year.
- Credits are phased out at certain income levels.



What is the Hope Credit?



- A credit of up to \$2,500 for qualified tuition and related expenses paid for each eligible student.
- A tax credit reduces the amount of income tax you may have to pay.



Who Can Claim the American Opportunity Credit?

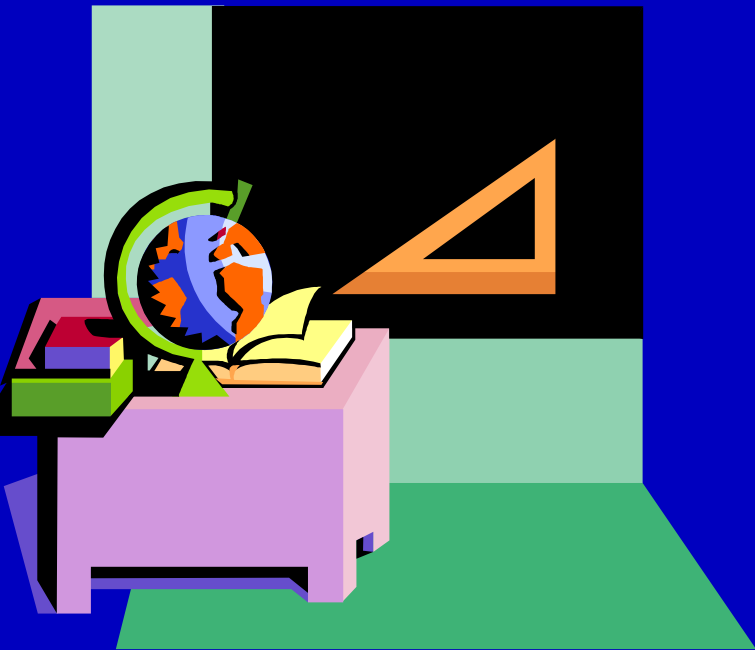


Generally, you can claim the Hope credit if :

1. You pay qualified tuition and related expenses of higher education.
2. You pay the tuition and related expenses for an eligible student.
3. The eligible student is either yourself, your spouse, or a dependent for whom you claim an exemption on your tax return.



How Much is the American Opportunity Credit Amount?



- You may be able to claim a the credit of up to \$2,500 for qualified tuition, cost of required course materials and related expenses paid for each eligible student.
- Subject to income phase-out levels.
- You may be able to claim this Credit and receive a Coverdell ESA distribution in the same year.

Lifetime Learning Credit



- Taxpayers may be eligible to claim a nonrefundable lifetime learning credit against their federal income taxes. The Lifetime Learning Credit may be claimed for the qualified tuition and related expenses of the students in the taxpayer's family.



Who Can Claim the Lifetime Learning Credit?



- An individual paying qualified tuition and related expenses at an eligible postsecondary educational institution.



May an Individual Claim the Lifetime Learning Credit for More than One Family member?



- Yes. The lifetime learning credit is calculated on a per family, rather than a per student, basis. Therefore, the maximum available credit does not vary with the number of students in the family.



How Much is the Lifetime Learning Credit Amount?



- The credit is equal to 20 percent of the taxpayer's first \$10,000 of out-of-pocket qualified tuition and related expenses.
- Thus, the maximum credit a taxpayer may claim for 2009 is \$2,000. These amounts are not indexed for inflation.

What Expenses Qualify for the Lifetime Learning Credit?

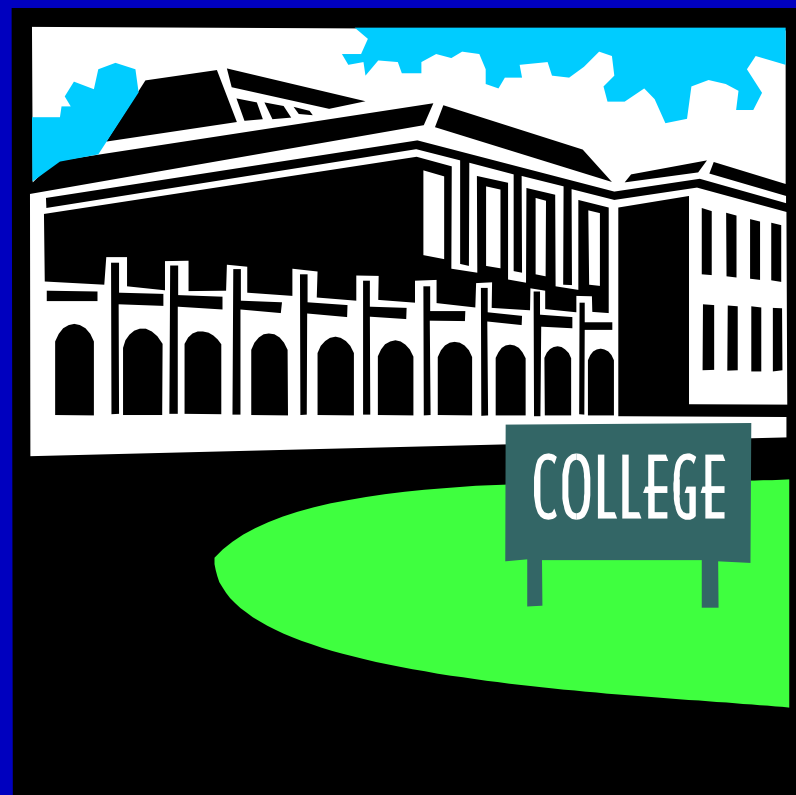
- Qualified tuition and related educational expenses at an eligible institution.



What is an “Eligible Institution?”



- All accredited public, nonprofit, and publicly owned colleges, universities, vocational schools, and other postsecondary institutions eligible to participate in student aid programs.



Compare the Credits



American Opportunity Credit

- Up to \$2,500 credit per eligible student.
- Student must be pursuing an undergraduate degree or other recognized education credential.
- Student must be enrolled at least half time for at least one academic period beginning during the year.
- Now available for 4 years instead of 2.
- Up to 40% may be refundable.

Lifetime Learning Credit

- Up to \$2,000 credit per return.
- Available for ALL years of postsecondary education and for courses to acquire or improve job skills.
- Available for an unlimited number of years.
- Student does not need to be pursuing a degree or other recognized education credential
- Available for one or more courses.
- Felony drug conviction rule does not apply.



The Making Work Pay Credit

- The **Making Work Pay** economic stimulus credit is a refundable tax credit of up to \$400 for working individuals and \$800 for working married couples for 2009 and 2010.
- This credit resulted in a decrease in withholding for most taxpayers. As a result it may also cause a surprise for some taxpayers who discover that they need to adjust their withholding amounts, or owe at tax time.

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Thank You

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